

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

GTE CORPORATION,
One Stamford Forum
Stamford, Connecticut 06904

GTE SERVICE CORPORATION,
One Stamford Forum
Stamford, Connecticut 06904

GTE INTERNETWORKING
INCORPORATED,
150 Cambridge Park Drive
Cambridge, Massachusetts 02410

and

GTE COMMUNICATIONS CORPORATION,
6665 North MacArthur Boulevard
Irving, Texas 75039

Plaintiffs,

v.

WORLDCOM INC. and
MCI COMMUNICATIONS CORPORATION,

Defendants.

CASE NUMBER 1:98CV01155

JUDGE: Thomas Penfield Jackson

DECK TYPE: Antitrust

DATE STAMP: 05/07/98

COMPLAINT FOR
DECLARATORY AND
INJUNCTIVE RELIEF

INTRODUCTION AND NATURE OF CLAIMS

1. Plaintiffs GTE Corporation, GTE Service Corporation, GTE Internetworking Incorporated, and GTE Communications Corporation (collectively and individually "GTE") bring this antitrust action to block the largest corporate combination in U.S. telecommunications history -- the proposed merger of WorldCom Inc. ("WorldCom")

and MCI Communications Corporation ("MCI"). GTE seeks a declaration that the merger of MCI and WorldCom is unlawful under section 7 of the Clayton Act, 15 U.S.C. § 18, and an order permanently enjoining the merger.

2. The proposed MCI-WorldCom combination will substantially lessen competition and tend to create a monopoly in several vital national and international telecommunications markets in violation of section 7. Specifically:

a. The merger will destroy the critical competitive balance that exists on the Internet today by creating a dominant provider of Internet backbone service. At its core, the Internet is a competitive network of networks. A healthy number of firms operate the backbone networks that comprise the heart of the Internet, and no single backbone operator accounts for a dominant share of Internet traffic or destinations. Although staunch competitors, all of the major backbones today are also dependent upon each other for interconnection. They thus find it in their independent interests to cooperate to maintain and upgrade the capacity of interconnection among their networks in order to offer their customers ubiquitous, high-quality access to the whole Internet. This vital structure of competitive interdependence has made it possible for Internet providers to accommodate enormous growth in traffic, to achieve stunning technological innovation, and to maintain low-cost Internet access for tens of millions of Americans -- all without any government regulation. That structure will disintegrate if the MCI-WorldCom merger is allowed to go forward. By concentrating under common control the two largest Internet backbone networks to create one dominant national network, the merger will give MCI-WorldCom a

stranglehold over the burgeoning Internet and the incentive and ability to stifle competition from all other rival Internet backbone operators, including GTE. If this unprecedented merger is not stopped, the Internet will cease to be an open, highly competitive marketplace and rapidly degenerate into a closed network dominated by a single megafirm that will, for all practical purposes, *become* the Internet.

b. The MCI-WorldCom merger will also substantially lessen competition in highly concentrated wholesale and retail markets for long distance services. MCI and WorldCom are two of only four national and international facilities-based long distance carriers. The "Big Three" retail carriers -- AT&T, MCI and Sprint -- dominate direct retail sales to residential and small business customers. But their pricing to these customers is restrained by competition from resellers of long distance service, and WorldCom is by far the largest and most active supplier of wholesale service purchased by resellers. When combined with MCI, WorldCom's incentives will change dramatically. To avoid cannibalizing MCI's more profitable retail base, and to protect MCI's future retail sales, MCI-WorldCom will compete less aggressively for sales to resellers -- just as AT&T, MCI and Sprint would prefer to do without competitive stimulus from WorldCom. As a result, wholesale prices to resellers will rise and their ability to compete in retail markets will suffer. Moreover, the merger will reduce the number of national and international facilities-based long distance carriers from four to three, diminishing competition and increasing the threat of oligopolistic pricing to residential and small business customers. Likewise, this

reduction in competition will harm large business customers who demand long distance services that are available only from a national and international facilities-based carrier.

c. Finally, the combination of MCI and WorldCom will substantially increase concentration and lessen competition in important international calling markets between the United States and numerous foreign countries, resulting in higher international calling rates and poorer service for GTE and other customers.

3. Moreover, because WorldCom has agreed to pay such an enormous premium for MCI -- well in excess of MCI's fair market value -- the combined MCI-WorldCom will have far fewer resources and incentives to enter and compete aggressively in local telephone markets. Any so-called merger "synergies" resulting from MCI's and WorldCom's consolidation of their overlapping competitive local telephone operations are nothing more than a retrenchment -- a retrenchment that will eliminate a significant local carrier that would otherwise enhance competition.

4. In sum, the proposed merger of MCI and WorldCom is a classically anticompetitive horizontal merger between two of the largest competitors in already concentrated markets. If not enjoined, the proposed combination will dramatically retard the Internet as we know it and will significantly harm competition and threaten to create a monopoly in critical telecommunications markets in clear violation of section 7 of the Clayton Act.

JURISDICTION AND VENUE

5. This action is brought under sections 7 and 16 of the Clayton Act, 15 U.S.C. §§ 18 & 26. This Court has jurisdiction pursuant to 28 U.S.C. §§ 1331, 1337 & 2201.

6. Venue is proper in this judicial district under sections 12 and 16 of the Clayton Act, 15 U.S.C. §§ 22 & 26, and 28 U.S.C. § 1391. All three parties to this action have a substantial presence and transact business in the District of Columbia.

THE PARTIES

7. Plaintiff GTE Corporation is a New York corporation headquartered in Stamford, Connecticut, with its principal place of business in Irving, Texas. GTE Corporation, through its various subsidiaries, provides local telephone service to millions of customers in scattered service territories in 28 States, long distance services on a resale basis, data services, including a range of Internet offerings, and various other telecommunications products and services. Plaintiff GTE Service Corporation, a New York corporation with its principal place of business in Stamford, Connecticut, purchases domestic and international long distance services for internal GTE use. Plaintiff GTE Internetworking Incorporated, a Delaware corporation with its principal place of business in Cambridge, Massachusetts, is a national Internet backbone provider. Plaintiff GTE Communications Corporation, a Delaware corporation with its principal place of business in Irving, Texas, is a reseller of wholesale long distance service to residential and small business customers.

8. Defendant WorldCom is a Georgia corporation with its headquarters and principal place of business in Jackson, Mississippi. WorldCom provides Internet, long

distance, and local telecommunications services in the U.S. and around the world.

WorldCom is one of the two largest Internet backbone operators, the largest wholesale provider of long distance services in the U.S., and the nation's fourth largest facilities-based long distance carrier. In addition, WorldCom is one of a limited number of providers of international calling services between the U.S. and dozens of countries around the world.

9. Defendant MCI is a Delaware corporation with its headquarters and principal place of business in Washington, D.C. MCI provides a broad range of telecommunications services to customers throughout the U.S. and abroad. MCI is the largest Internet backbone provider and the second largest facilities-based long distance carrier in the U.S. MCI also provides international calling services to many countries presently served by WorldCom.

TRADE AND COMMERCE (RELEVANT MARKETS)

10. The merger of MCI and WorldCom will produce substantial anticompetitive effects in five categories of relevant markets: (i) the national market for Internet backbone service; (ii) regional markets for facilities needed to extend the reach of Internet backbones; (iii) the wholesale U.S. market for long distance services; (iv) retail U.S. markets for long distance services to residential and small business customers and to large business customers; and (v) numerous markets for private line and switched international calling services between the U.S. and foreign countries.

11. MCI and WorldCom operate instrumentalities of interstate or foreign commerce in each of the relevant markets, and the defendants' activities in each of these markets substantially affect interstate or foreign commerce.

ANTICOMPETITIVE EFFECTS OF THE MERGER

I. THE INTERNET

A. The Market for Internet Backbone Service

12. The Internet is a global system of interconnected data networks -- a network of networks -- that enables individuals, businesses and organizations to access, exchange and use vast amounts of information through computers and data communications. The Internet has fast become a vital medium for national commerce. Individual computers, from mainframes and PCs to sophisticated "Web servers," connect to the Internet through dial-up access or dedicated circuits, usually provided for a fee by Internet service providers, or "ISPs." ISPs typically offer their customers access to a local or regional network that in turn connects to the Internet through a "backbone" network.

13. The heart of the Internet in the U.S. is a series of interconnected national backbone networks. Backbone providers operate national networks of packet data switches, or "routers," that route Internet traffic over leased or owned fiber-optic transport facilities. Virtually all backbone networks in the U.S. today rely on transport, collocation and other underlying facilities provided by one of three interexchange carriers -- WorldCom, MCI and Sprint. A backbone operator offers ISPs and other customers connectivity both to

its backbone (and the destinations connected to its backbone) and to other backbone networks (and the destinations connected to those networks).

14. Just like customers for telephone service, Internet service providers and other users of the Internet typically want access to all sites or destinations on the Internet, not just to those destinations directly connected to one particular Internet backbone network. Because each national backbone operator today reaches only a fraction of users and sites connected to the Internet and carries only a fraction of the total Internet traffic, an essential component of the service provided by backbone operators is efficient, high quality interconnection to other national backbone networks.

15. Currently, all major national backbone operators must cooperate with one another, so that the ISPs and other Internet users on each backbone network can have high-quality access to destinations connected to the other major backbone networks. To this end, national backbone operators exchange data traffic between their networks on a bilateral basis pursuant to contractual or bartered arrangements. Most backbone operators interconnect with other networks at so-called network access points, or "NAPs" -- also known as "*public*" peering facilities. Two of the most significant NAPs or public peering facilities on the Internet are "MAE-West" and MAE-East," which are both operated by WorldCom's wholly-owned subsidiary MFS. In addition, the largest backbone operators interconnect with each other and exchange the majority of their traffic at *private* peering facilities -- usually located at points where their backbone networks can conveniently cross-connect. Historically, and at the present time, backbone operators typically exchange traffic

over peering facilities on a settlement-free, or "bill-and-keep," basis -- that is, each backbone provider charges its own customers for access to the Internet and exchanges traffic with other backbone providers free of charge.

16. For most ISPs and other Internet users, the speed and quality of their access to the Internet are largely determined by the capacity of the connection between the local network and their backbone network and, in turn, by the capacity of interconnection, or peering, between their backbone provider and other national backbone networks.

17. By virtue of the phenomenally rapid growth in Internet traffic in the U.S., each backbone operator must continually increase the capacity of its interconnection with other backbone networks to maintain the speed and quality of the Internet access it provides to its customers. Any failure to keep pace with the growing demand for increased interconnection capacity -- or any degradation in the quality of existing interconnections with other backbones -- will adversely affect the speed, quality and cost of Internet access offered by a backbone operator to its customers, regardless of the capacity and efficiency of the operator's own network.

18. The market for Internet backbone service is a relevant product market for purposes of this action. The relevant geographic market with respect to Internet backbone service is the continental United States.

B. Anticompetitive Effects in the National Market for Internet Backbone Service

19. The market power of an Internet backbone operator is generally a function of the relative dependence that other backbones have on interconnection with the network or networks controlled by that operator. Such relative dependence, or market power, can be gauged by at least three relevant measures: (1) the value of each backbone's installed customer base, which can be measured by the amount of traffic that comes in from, and goes out to, customers; (2) the relative volumes of peering traffic exchanged among the major national backbones; and (3) the absolute size of the larger network. Based on these measurements, today no single backbone operator on the Internet has a disproportionate size advantage over the other major backbones. Accordingly, each major backbone operator is critically dependent on interconnection with the others, and all backbone operators have an incentive to achieve and maintain the efficient, high-quality peering connections that allow the Internet to operate as a successful network of networks.

20. Through the merger of MCI and WorldCom, a single backbone operator will achieve a majority or substantial plurality of the Internet backbone market and a disparate size advantage relative to the next largest backbones. As a result, MCI-WorldCom's incentives and power will change dramatically. The combined company's backbone network will no longer be as relatively dependent on interconnection with any other single backbone network, while all other networks will become even more critically dependent for survival upon interconnection with the largest network. Consequently, MCI-WorldCom will no longer have the need or business incentive to cooperate with other

backbones to achieve and maintain high-quality, high-capacity interconnection. Rather, it will have the incentive and the ability to drive other backbones out of business. The proposed merger will cause the forces of cooperation and interdependence that hold the Internet together, that are key to its success, and that have generated competition among multiple Internet backbone operators, to break down rapidly.

21. By any relevant measure, MCI and WorldCom are currently the two largest Internet backbone operators. On information and belief, and according to publicly available data, each accounts for a current share of the national Internet backbone market of approximately 20 to 30%. The MCI Internet backbone is the largest single backbone network in the U.S. today. WorldCom, on the other hand, operates a conglomerate of major backbone networks. WorldCom's proposed merger with MCI is only the latest and largest in a rapid series of Internet purchases by WorldCom. In a flurry of acquisitions over the past two years, WorldCom has acquired a number of major national backbones, including the backbone networks of UUNet, ANS (which is the principal backbone provider for America Online -- the largest ISP in the U.S.) and CNS (which is the backbone network formerly operated by CompuServe -- recently acquired by AOL). WorldCom has also acquired substantial interests in two smaller backbone networks, GridNet and Verio.

22. If the merger of MCI and WorldCom is allowed to proceed, the combined firm's Internet backbone network will dwarf that of any other Internet backbone operator. MCI-WorldCom will control a majority or large plurality of 40 to 60% or more of

customer traffic and traffic exchanged with peers, and will be at least two to three times larger than the next largest backbone operator, Sprint.

23. Because the combined MCI-WorldCom Internet backbone network will have such disparate market power relative to other backbone operators (*i.e.*, so little dependence on any other backbone), MCI-WorldCom will no longer have an incentive to support interconnection with rival backbones and, in fact, will have both the incentive and the ability to act opportunistically to degrade the quality of interconnection and increase costs for its rivals. In particular, the combined MCI-WorldCom will have the incentive and the ability to degrade the quality of rivals' service and raise their costs in at least the following ways:

a. The combined MCI-WorldCom will have both the incentive and the ability to degrade the quality of rival backbone operators' network performance. MCI-WorldCom could readily achieve this result by (i) withholding or "slow rolling" upgrades in the capacity of interconnection facilities; (ii) affirmatively degrading the quality of interconnection with its dominant network; (iii) engineering its own network to discriminate against traffic coming from rival backbone networks; and (iv) strategically controlling or restricting the deployment of new technologies on the Internet. Because efficient, high-quality interconnection to the dominant MCI-WorldCom backbone (and the customers and users connected to it) will be essential to the ability of rivals to compete for customers with MCI-WorldCom, such opportunistic actions (or failures to act) will substantially lessen

competition in the national market for Internet backbone service and will have the real potential to create a monopoly in what is now a free and openly competitive market.

b. Likewise, because of its dominant size, the combined MCI-WorldCom will be the only backbone operator that can credibly threaten to cut off rival backbone networks from access to a dominant share of Internet destinations. No rival backbone or ISP could survive without adequate access to MCI-WorldCom's network and the share of Internet destinations connected to that network. Conversely, MCI-WorldCom customers would suffer a far less significant deterioration of service if MCI-WorldCom cut off service to a smaller backbone operator. Accordingly, MCI-WorldCom will be in a position to dictate the terms of interconnection with its network and to set supracompetitive prices, thereby raising rival backbone operators' costs and impeding competition.

c. Moreover, simply by virtue of its dominant size and market power, the combined MCI-WorldCom will have every incentive to act unilaterally to exploit real and perceived network externalities to the detriment of its competitors and ultimately of consumers. After the merger, it will be rational business conduct for MCI-WorldCom to encourage and exploit consumer perception and bias against interconnection, thereby advantaging itself because its much larger network will, on average, require fewer interconnections with rival networks to reach destinations on the Internet. By virtue of having the dominant backbone network, MCI-WorldCom will also have a unique advantage in its ability to deploy new Internet technologies, including Internet telephony and video services. In addition, it will be rational for MCI-WorldCom to deploy fewer resources to

improve the quality of interconnection with rivals and thereby further advantage itself by reducing competition. As a result, MCI-WorldCom will be able to restrict overall output and quality of service across the Internet and control or restrict the deployment of new technologies.

24. The proposed merger will also combine certain key strategic Internet assets with a greatly enlarged backbone network and will thereby further exacerbate the power and leverage of the combined MCI-WorldCom:

a. *First*, WorldCom and MCI are two of only three national interexchange carriers that supply the fiber transport facilities and other underlying infrastructure that many rival backbone operators, including GTE at the present time, must lease to compete in the Internet backbone market. The concentration in control over the supply of this underlying infrastructure, and hence the elimination of competition in this already concentrated input market, will give the combined MCI-WorldCom an even greater ability to increase the costs of rival backbone operators by increasing the prices for this infrastructure.

b. *Second*, WorldCom, through its wholly owned subsidiary MFS, owns and operates two of the most critically important public peering facilities on the Internet today -- the "MAE-East" and "MAE-West" facilities. Interconnection through these key facilities to other networks and Web hosting sites is currently essential for operation of all competing Internet backbone networks. MCI-WorldCom's ownership of these critical

facilities will allow it to manipulate the quality of interconnection between its rival backbone networks and virtually all smaller or regional networks.

c. *Third*, WorldCom has long-term contracts to be the exclusive (or near-exclusive) backbone provider for the largest national ISPs -- AOL, Microsoft Network (or "MSN") and CompuServe -- which together account for approximately 50% of all consumer Internet users in the U.S. These and other long-term strategic relationships ensure that the combined MCI-WorldCom will retain much of its customer base even if it no longer supports interconnection with other major backbones.

25. As a result of such changes in incentives and opportunistic unilateral conduct by the combined MCI-WorldCom, existing and new customers for Internet backbone service -- whether they be ISPs or other Internet users -- would be forced (for quality and price reasons) to become customers of MCI-WorldCom over other backbone operators, thereby further increasing the size, dominance, and capacity for anticompetitive conduct of MCI-WorldCom. Indeed, because the Internet is growing at a phenomenally rapid pace -- doubling approximately every 100 days -- the impact of this misallocation of customers to the dominant MCI-WorldCom would be accelerated and the Internet backbone market would spiral toward greater and greater control and dominance by the combined MCI-WorldCom until, for all practical purposes, the new megafirm would *become* the Internet. The days of a highly competitive Internet as a network of dispersed networks controlled by many different entities, all cooperating for the benefit of themselves and Internet users alike, would be lost.

The ultimate outcome will be restricted capacity and higher prices for Internet access for all consumers, as well as less technological innovation across the Internet.

26. There is no effective way to police or regulate the anticompetitive conduct that will result from the MCI-WorldCom merger. There exists today no regulation that prescribes whether or on what terms Internet backbone operators must interconnect. Moreover, no such regulation could be effective in preventing the anticompetitive conduct described above because such conduct is inherently unpoliceable. For example, it would be simply too difficult to prove that the combined MCI-WorldCom entity was "slow rolling" the development of expanded interconnection capacity and quality requirements to meet the exponentially increasing demand for Internet access, though such anticompetitive conduct would have devastating consequences on MCI-WorldCom's rivals. Nor is there an efficient and timely means to determine the "correct" price of interconnection so as to prevent MCI-WorldCom from charging rival backbone operators supracompetitive rates for interconnection.

27. In addition, if MCI and WorldCom are allowed to consummate their proposed combination to form a single dominant national backbone operator, barriers to entry in the market for Internet backbone services will increase substantially. Competitive entry by new backbone operators (and, in turn, access to new backbone capacity for current and potential Internet users), will largely be controlled by MCI-WorldCom, since interconnection with the MCI-WorldCom backbone network and access to MCI-WorldCom's Internet customers will be essential for the marketing of backbone and other Internet services by new

entrants. Because no new backbone network could successfully attract customers without dependable, high-quality interconnection with the MCI-WorldCom backbone, a new entrant could not justify the huge investment needed to construct a national Internet backbone without securing the cooperation of MCI-WorldCom.

C. Markets for Facilities Needed to Extend the Reach of Internet Backbones

28. The network of an Internet backbone operator may not itself extend to all geographic areas. To supply Internet service to customers in areas where its backbone network does not reach, an Internet backbone operator must lease circuits and other facilities from other firms to create "spines" or "spurs" that emanate from the backbone network to more remote locations. WorldCom and MCI are the leading providers of such leased facilities on which other major Internet backbone operators, including GTE, must depend to reach customers in many areas.

29. Even for those few rival Internet backbone operators who, either now or in the near future, are not wholly dependent on MCI or WorldCom for national transport facilities and other underlying infrastructure, the proposed merger will still create serious anticompetitive effects on the supply of facilities needed to extend the reach of Internet backbone networks to geographic areas where the rivals' networks currently do not extend. In many such areas, MCI and WorldCom are the only available suppliers of leased circuits and other facilities required to extend the reach of rival Internet backbones, or are two of only very few such suppliers. The proposed merger of MCI and WorldCom will eliminate competition for the supply of those facilities in such areas or, at a minimum, will increase the

likelihood of coordinated conduct among the remaining suppliers of such facilities. Not only will the merger thus adversely affect competition in markets for the supply of facilities needed to extend the reach of Internet backbones, but it will also allow the combined firm once again to increase significantly the costs of its rival Internet backbone operators by increasing the price of such facilities.

30. The market for facilities needed to extend the reach of Internet backbone networks is a relevant product market for purposes of this action. The relevant geographic markets with respect to such facilities are the particular point-to-point routes and locations where an Internet backbone operator, such as GTE, needs to lease facilities for the extension of its backbone network and where MCI and WorldCom currently are the only two (or two of few) companies that compete to provide such facilities.

II. LONG DISTANCE AND INTERNATIONAL TELEPHONE SERVICES

A. Markets for Long Distance Services

31. The telecommunications service commonly known as "long distance" is actually a sophisticated universe of processes and equipment that allows customers to make calls virtually anywhere in the world. MCI, WorldCom, Sprint and AT&T each offer two types of long distance service -- switched interLATA (or domestic) service and international service. To provide these services, these firms carry basic and enhanced voice and data communications over vast national and international networks. Domestic calls are terminated by routing communications through an interexchange switch to reach residences and businesses located in different local access and transport areas ("LATAs"), while

international calls are terminated by delivering communications to the carriers serving destination countries.

32. To manage and operate these complex domestic and international networks, long distance carriers need more than just fiber and switches -- infrastructure and equipment that itself costs millions of dollars to purchase and deploy. They also need network management equipment and personnel, back-office facilities, trained sales and marketing staff, operations support systems, access to rights-of-way, and connections with domestic and international networks that allow the carriers to terminate calls. There are only four such national and international facilities-based long distance carriers in the United States: AT&T, MCI, Sprint and WorldCom. In 1997, these four carriers accounted for well over 90 percent of long distance services provided (directly or through resellers) to residential and small business customers, as well as long distance services provided (directly) to large business customers.

33. The Big Three long distance providers -- AT&T, MCI and Sprint -- predominantly retail their long distance services directly to end users. WorldCom, and to a lesser extent the Big Three, also provide wholesale long distance service to resellers who, in turn, offer this service under their own brand names to residential and small business customers. These resellers typically have few, if any, facilities of their own, and are therefore almost entirely dependent on wholesale suppliers for the long distance service they retail to end-users. In 1997, the four major facilities-based carriers together accounted for about 90 percent of the wholesale service sold to resellers. Of the four, WorldCom was by

far the most important wholesale supplier, accounting for approximately 40 percent of all sales to resellers and inducing the Big Three to offer more favorable wholesale terms.

34. The wholesale market for long distance services offered to resellers is a relevant product market for purposes of the present action, the geographic scope of which is nationwide. The combination of MCI and WorldCom will have direct and immediate adverse effects on competition in this wholesale market. WorldCom has acted as the "maverick" among the four facilities-based long distance carriers, de-emphasizing the retail sale of long distance services to residential and small business customers, and instead supplying long distance service to resellers who compete aggressively in retail markets against the Big Three. Indeed, WorldCom has specifically structured its service offerings to attract wholesale customers. Its "Transcend" pricing structure, for example, charges resellers based on the cost of the service they purchase, rather than on a per-minute basis as retail customers are charged. This WorldCom pricing strategy -- which dramatically undercuts the retail prices offered by the Big Three -- has allowed its reseller customers to compete successfully in retail markets otherwise characterized by high concentration and interdependent behavior by MCI, Sprint and AT&T. Indeed, in 1997, resellers accounted for at least 20 percent of long distance sales to residential and small business customers and, absent the proposed merger, that share is expected to grow.

35. Unlike WorldCom, the Big Three long ago adopted a strategy to invest in establishing, advertising, and mass-marketing their brand names to residential and small business customers. Because the Big Three have made such substantial investments in the

strength of their brand names, they make the overwhelming majority of their sales directly to retail residential and small business customers, rather than less profitable sales to wholesale purchasers. Indeed, the Big Three's brand name based strategy gives them little incentive to offer wholesale service on competitive terms, absent the presence in the market of a maverick like WorldCom. By doing so, the Big Three would only forgo higher-profit retail sales and cannibalize their customer base, making lower-profit sales to wholesale customers that would ultimately compete against their branded service.

36. In stark contrast, WorldCom lacks an established brand name or a significant retail presence of its own, and depends upon resellers to market its supply of long distance service to end-users. WorldCom's presence in the long distance market has therefore exerted substantial competitive pressure on the Big Three, forcing them to lower the price and improve the quality of both wholesale service and direct retail service to residential and small business customers.

37. If WorldCom and MCI are allowed to merge, all of this will change. WorldCom, when combined with MCI, will come to share the incentive *against* offering competitive wholesale service that already infects AT&T, MCI and Sprint. Rather than risk losing MCI's direct retail sales -- sales that are far more lucrative than providing wholesale service -- WorldCom will choose to become a less aggressive wholesale competitor. And because they too earn higher margins from retail sales, neither AT&T nor Sprint -- the two remaining national and international facilities-based interexchange carriers -- will have any incentive to offer competitive prices and services to resellers. The merger of WorldCom and

MCI will therefore eliminate the only maverick in the long distance market and the only carrier that has an incentive to compete aggressively against the Big Three's branded service. Resellers will be forced to pay high wholesale prices, and residential and small business customers will suffer from resellers' diminished ability to offer service at competitive prices.

38. The merger of WorldCom and MCI will also facilitate oligopolistic pricing of wholesale long distance service, thereby impairing resellers' ability to purchase wholesale service at competitive prices -- an effect that will be felt rapidly in the downstream residential and small business retail market. Eliminating WorldCom from the mix of long distance providers -- reducing the number of facilities-based competitors from four to three -- will greatly facilitate anticompetitive, coordinated conduct among MCI-WorldCom, Sprint and AT&T. The market for retail long distance sales to residential and small business customers is highly concentrated and the Big Three already engage in interdependent, oligopolistic pricing. The MCI-WorldCom merger will only facilitate these practices, allowing MCI-WorldCom, Sprint, and AT&T to inflate the price of wholesale service to resellers, raising the costs of their smaller competitors and insulating their retail sales from effective competition. In the end, prices to residential and small business customers will rise, and the quality of long distance services will fall. The retail market for the sale of long distance services to residential and small business customers is therefore an additional relevant product market, the geographic scope of which is regional.

39. Likewise, because the market for retail sales of long distance services to large businesses is currently dominated by the Big Three and WorldCom, the MCI-

WorldCom merger will also facilitate further coordinated, oligopolistic conduct in this market. Prices to these large business customers, including GTE, will rise, and the quality of service will fall. The retail market for the sale of long distance services to large business customers is therefore a further relevant product market for purposes of this action, the geographic scope of which is nationwide.

40. There is little hope that the MCI-WorldCom merger's anticompetitive harm will spur a timely or sufficient competitive response from any existing secondary long distance carrier or new entrants. Due to the complexity of building and managing a ubiquitous facilities-based long distance network, barriers to entry are extremely high. To compete effectively in the long distance market, a new entrant must construct or lease a highly developed national and international network, including substantial off-network transport, interexchange switching, network management, operations support systems, and back-office facilities. Moreover, new long distance carriers must be able to originate, terminate and aggregate large amounts of long distance traffic over high-capacity facilities both domestically and internationally, in order to achieve the economies of scale and low unit costs necessary to compete against the Big Three and WorldCom. Acquiring the infrastructure and generating the traffic volumes needed to justify such a ubiquitous facilities-based operation is extremely costly and takes many years to accomplish.

B. Markets for International Calling Services

41. The Big Three and WorldCom also offer international calling services between the U.S. and foreign countries over leased or owned undersea cable facilities. These

services include both switched international calling (also known as international message toll service) and private line services, often provided to telecommunications carriers, large corporations and other customers, like governmental entities, with substantial voice and data needs. The markets for switched and private line international calling services are relevant product markets for purposes of this action. The relevant geographic markets for international calling services are specific country-to-country routes, between the U.S. and each affected nation.

42. The merger of MCI and WorldCom will further concentrate the already small number of carriers providing international calling services between the U.S. and many foreign countries. The Big Three and WorldCom account for over 90 percent of international private line revenues between the U.S. and foreign countries, and MCI and WorldCom currently provide overlapping international private line service to dozens of such routes. Likewise, AT&T, MCI, Sprint, and WorldCom account for over 95 percent of switched service revenues between the U.S. and foreign countries. MCI and WorldCom currently provide overlapping switched international calling service to dozens of these routes as well.

43. The merger of MCI and WorldCom will dramatically increase concentration in these international calling markets and will invariably result in higher prices for customers of international calling services, including GTE. Capacity on existing and planned undersea cables is severely constrained, and landing rights for telecommunications lines to foreign countries are tightly controlled. Accordingly, the higher prices that will flow

from this merger cannot be constrained by the entry of new international carriers or by an increase in the capacity of existing carriers.

ANTITRUST HARM TO GTE FROM THE MERGER

44. The substantial harm to competition that will follow from the combination of MCI and WorldCom threatens direct and serious injury to GTE in each relevant market that is cognizable and redressable under section 7 of the Clayton Act.

a. GTE is a national Internet backbone operator. GTE's ability to compete in the national market for Internet backbone service, and in turn GTE's ability to provide efficient, high-quality Internet access services of all varieties to its customers, will be significantly harmed and stifled by any opportunistic degradation in the quality of, or any coercive increase in the price of, interconnection imposed by the dominant MCI-WorldCom backbone network. Moreover, as a backbone operator, GTE is a customer for traffic exchange, on a bartered basis, with other national backbone operators, including MCI and WorldCom. Accordingly, any actions taken by the newly dominant MCI-WorldCom to degrade or fail to upgrade the quality of its interconnection with GTE will directly harm GTE in its capacity as a customer of the combined entity.

b. As a backbone operator, GTE is a customer for facilities that GTE leases or will lease to extend the reach of its Internet backbone network to certain areas. To the extent the merger makes the combined entity less likely to make such leased facilities available at reasonable prices to GTE, or to the extent the merger increases the likelihood of coordinated conduct among the suppliers of such facilities, GTE will be injured.